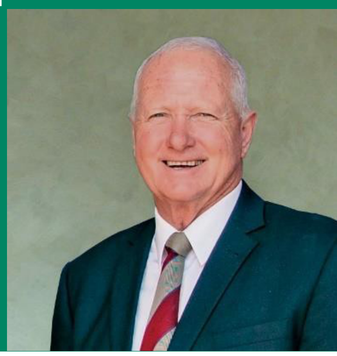
information paper

SOUTH AUSTRALIAN

L LOCAL | G GOVERNMENT | G GRANTS | C COMMISSION

The South Australian Local Government Grants Commission is an independent statutory authority established under the *South Australian Local Government Grants Commission Act 1992*. The three members are appointed on a part-time basis by the Governor.



Bruce Green
Chair

Joint nominee of the Local Government Association and Minister for Planning and Local Government

Wendy Campana
Commissioner

Nominee of the Minister for Planning and Local Government

Erika Vickery
Commissioner

Nominee of the Local Government Association

The South Australian Local Government Grants Commission makes recommendations to the Minister for Planning and Local Government for the distribution of untied Commonwealth Financial Assistance Grants (FA Grants).

Grants for local governing authorities in South Australia are distributed in accordance with National Principles set by the Commonwealth *Local Government (Financial Assistance) Act 1995.*

All funds allocated by the Australian Government are distributed to councils. All of the Commission's costs are met by the State Government.

Government of South Australia

South Australian Local Government
Grants Commission

Administrative Support is provided to the Commission by its Executive Officer, Peter Ilee (centre), Senior Project Officer, Alex Sgro (left) and Senior Administrative Officer, Helga Henning (right)

GLOSSARY OF TERMS

Horizontal Equalisation: refers to the distribution of grants in a way which assists each local governing body to provide services (by reasonable effort) at a standard not lower than the average of other local governing bodies in the State.

Revenue Component: refers to the calculation of a council's capacity to raise revenue on a per capita basis, compared to the average council, taking into consideration capital values of properties within each council compared to the State average.

SEIFA Index: refers to the Socio-Economic Index's for Areas. This index is published by the Australian Bureau of Statistics and is used by the Commission to make adjustments to its revenue component assessment based on its resident's capacity to pay.

Expenditure Component: refers to the calculation of a councils expenditure needs on a per capita basis, compared to the average council, taking into account the reported expenditures of all councils across a standard range of services provided.

Cost Driver or **Unit of Measure:** refers to the main factor that influences the cost of providing a particular service to a community and is used by the Commission in its expenditure component assessments. For example, the cost driver for the assessment of aged care services is the proportion of a council's population which is over 65 years of age.

Cost Relativity Index (CRI): refers to an adjustment made to expenditure component assessments to account for the differences in providing services that are outside council's control. For example, an adjustment is made to the assessment of waste management services (via a CRI) to account for the differences in the length of the collection route required for each council (for general waste), i.e., how far councils have to travel to collect waste from its residents.

LEGISLATIVE FRAMEWORK

The Commonwealth *Local Government (Financial Assistance) Act 1995* governs the way in which grants are distributed and sets out the six National Principles to be adhered to in the allocation process.

The Act provides for:

- a per capita distribution (to the States) for the general financial assistance funding;
- the continued separate identification of local road funding provided according to allocations set prior to 1991-1992;
- a National Report on the operation of the Act, specifically the achievement of horizontal equalisation, the methods used by each State or Territory Commission, the performance of councils including their efficiency, and the provision of services to Aboriginal and Torres Strait Islander communities; and
- a set of National Principles governing the distribution. The Principles, which provide for a distribution based on horizontal equalisation (subject to the minimum grant entitlement), are discussed on the following page

NATIONAL PRINCIPLES FOR GRANT DISTRIBUTION

Horizontal Equalisation

The general financial assistance funding (general purpose grant) is distributed using a needs based approach, called horizontal fiscal equalisation, which aims to compensate councils with below average revenue raising capacity and above average costs of service provision.

Minimum Grant

The minimum grant entitlement is the amount that councils would be entitled to if 30 percent of the general financial assistance funding was distributed between councils on a per capita basis.

Effort Neutrality

In assessing grant amounts for individual councils, the Commission takes no account of the policies and practices of those councils. Thus individual policy on rate setting, service provision and standards, and levels of debt and reserves have no impact on the amount that the Commission recommends be provided to each council.

Other Grant Support

Other grant support provided to councils to meet expenditure needs is taken into account. Only of-right grants such as libraries grants and the Identified Local Road Grants are currently taken into account. Special effort grants obtained by councils are not included.

Aboriginal and Torres Strait Islanders

Financial Assistance is allocated to councils in a way which recognises the needs of Aboriginal and Torres Strait Island people within their boundaries.

Council Amalgamation

Where two or more local governing bodies are amalgamated into a single body, the general purpose grant provided to the new body for each of the four years following amalgamation should be the total of the amounts that would have been provided to the former bodies in each of those years if they had remained separate entities.

The facts of the matter

Grants distributed should compensate Councils for differences in the costs of providing services and in differences in their revenue raising capacity.

Equalisation refers to the financial capacity of the council; it does not mean that the level of service must be equal.

Councils may choose to have higher or lower levels of service according to their own priorities.

The Commission aims to equalise their financial capacity to provide a similar level of service to their communities.

The Grants are untied and may be spent according to community priorities.

THE COMMISSION'S METHODOLOGY

The methodology used to assess the amount of general purpose funding provided to each council in South Australia is intended to recommend allocations consistent with the National Principles.

The over-riding principle is one of horizontal equalisation (see glossary), which is constrained by the requirement for each local governing body to receive a minimum entitlement per head of population (the per capita minimum grant).

The Commission has a direct assessment approach to the calculations. This means it calculates a separate estimate of a component revenue assessment and a component expenditure assessment for each council. These are combined to determine each council's overall equalisation need. A standard formula is used as a basis for both the revenue and expenditure assessments.

Available funds are distributed in accordance with the relativities established through this process and adjustments are made as necessary to ensure the per capita minimum entitlement is met for each council.

For local governing bodies outside the incorporated areas, allocations are made on a per capita basis. The initial per capita allocation was determined by an independent consultancy. This methodology applies to the Outback Communities Authority and five Aboriginal communities.

Revenue Component

The revenue component assessment determines whether the revenue raising capacity of the council per capita is greater or less than the state per capita. Revenue assessments can be positive or negative. For example, councils with the capacity to raise revenue greater than that of a standard council, will receive a negative revenue assessment. In contrast, councils with lesser capacity to raise revenue would receive a positive revenue assessment.

The Commission estimates each council's component revenue assessment by applying the State average rate in the dollar to the difference between the council's improved capital values per capita (weighted by the council's SEIFA Index of Economic Resources) and those for the State as a whole, and multiplying this back by the council's population.

The State average rate in the dollar is the ratio of total rate revenue to total improved capital values of rateable property. The State average SEIFA Index (Economic Resources) is one.

The result shows how much less (or more) rate revenue a council would be able to raise than the average for the State as a whole if it applied the State average rate in the dollar to the capital values of its rateable properties. This calculation is repeated for each of five land use categories, namely residential, commercial, industrial, rural and other.

The SEIFA Index of Economic Resources is applied to the capital valuations for residential and rural property only.

To overcome fluctuations in the base data, valuations, rate revenue and population are averaged over three years.

Subsidies that most councils receive and are not dependent upon their own special effort, i.e. they are effort neutral, are treated by the “inclusion approach”. That is, subsidies such as those for library services and the identified local road grants are included in the revenue assessments, but those obtained by special effort are not included.

Expenditure Component

The calculation for the expenditure component is based on the assessment of specific functions typically undertaken by councils. The expenditure component assessment determines whether the standardised expenditure of the council per capita is greater or less than the state average per capita and takes account of relative cost advantages and disadvantages between councils.

Expenditure component assessments can also be positive or negative. Councils whose standardised expenditure per capita is more than the state average per capita, in the cost of providing services or performing functions, will receive a positive assessment and vice versa.

The Commission assesses expenditure needs and a component expenditure assessment for each of a range of functions and these are combined to give a total component expenditure assessment for each council. The methodology compares each council per capita against the State per capita for each function.

Each function is identified by a main cost driver or unit of measure. This is divided into the total expenditure on the function for the State as a whole to determine the average or standard cost for the particular function.

Cost Relativity Index

Cost Relativity Indices (CRIs) are a measure of a council’s relative advantage or disadvantage as compared to other councils providing similar services or functions. They measure the degree to which a council’s costs for each function might be expected to exceed (or be less) than the average or standard cost because of factors outside the council’s control. The average council = 1.0 and consequently they are centred around 1.0. In the case of roads, CRIs measure relative costs of factors such as material haulage, soil type, rainfall and drainage.

CRIs are used as a multiplier in the expenditure assessments. To overcome fluctuations in the base data, inputs into the expenditure assessments (with the exception of the annually revised road lengths) are averaged over three years.

Expenditure Functions

The following services are currently assessed under the expenditure component assessment:

Aged Care Services, Libraries, Bridges, Community Support, Environment & Coastal Protection, Health Inspection, Jetties, Wharves, Marinas & Boat Ramps, Planning & Building Control, Public Order & Safety, Roads, Services to Families and Children, Sport, Recreation and Culture, Stormwater Drainage – Maintenance, Waste Management, Airports & Authorised Landing Areas, Isolation, Proportion of Indigenous Population, Percentage of Unemployed People.

Aggregated Revenue and Expenditure Assessments

Assessments for all revenue and expenditure functions, calculated for each council using the methodology outlined above, are aggregated to give each council’s total raw calculation.

Where the raw calculation per head of population is less than the per capita minimum entitlement as set out in the Act, ($21.49 for 2021-22), the raw calculation is adjusted to bring it up to the per capita minimum entitlement.

After allocating the per capita minimum entitlements, the balance of the grant pool, less allocation to other local governing bodies outside the incorporated areas, is then apportioned to the remaining councils based on their calculated proportion of the total raw calculation.

Commission determined limits may then be applied to minimise the impact on council’s budgetary processes to determine the final estimated grant for the financial year.

Local Road Funding

The formula component is divided between metropolitan and non-metropolitan councils on the basis of an equal weighting of road length and population.

In the metropolitan area, allocations to individual councils are determined again by an equal weighting of population and road length. In the non-metropolitan area, allocations are made on an equal weighting of population, road length and area of council.

Special Local Roads Program

Distribution of the grants under the Special Local Roads Program is based on recommendations from the Local Government Transport Advisory Panel, who is responsible for assessing submissions from the metropolitan and regional associations on local road projects of regional significance.

Funding is sourced at the rate of 15 percent from the Local Road Component of the Financial Assistance Grants, Roads to Recovery Funding and Supplementary Local Road Funding (see summary of grants on insert).

METHODOLOGY REVIEW

The Commission is committed to regularly reviewing the methodology used to assess council's capacity to provide an average level of service to their communities.

Reviewing the methodology ensures that, in making recommendations to the State and Commonwealth Ministers for distribution of FA Grants, the Commission takes into account factors which affect councils' capacity to provide an average level of service, as they develop.

The Commission has undertaken major reviews of its methodology in 1997-98, 2002-03 and 2012-13. In the interim, the Commission reviews specific areas of its methodology based on its own work plan or from issues raised by Councils during visits or from submissions.

Recent methodology review work includes:

- 2016-17 - Completion of a review of the Other Needs Assessment of the General Purpose Grants. This review incorporated a more direct method of recognising expenditure need in relation to cultural and tourism, environment and coastal protection expenditure. It also reviewed the allowance for isolation, providing increased recognition for rural councils with higher costs of providing services.
- 2020-21 – New expenditure assessment for Airports and Airstrips and update to expenditure assessment for Jetties and Wharves. This review incorporated a new expenditure assessment for regional airports and airstrips into the methodology and expanded the current expenditure assessment for Jetties and Wharves to include Marinas and Boat Ramps.

The Commission values the opportunity to meet with councils and receive feedback during council visits and encourages councils to make submissions. This enables the Commission to continually improve the grant process.

Notwithstanding the above, changes to the distribution of grants between councils have occurred from changes to the underlying factors that are used in the current methodology, such as valuation data, population and increased or decreased expenditure on the standard range of services assessed by the Commission.

COUNCIL VISITS

The Commission has a triennial visiting program in place and visits councils, remote outback communities and Aboriginal communities. The purpose of the visits is to provide information and an opportunity to discuss the grant allocation process.

The Commission has four main objectives in visiting councils, and they are:

- to explain how the Commission operates and why it exists;
- to enable the Commission to raise queries with councils about annual audited financial statements, general information returns and submissions;
- to provide a forum to discuss how grants are calculated and any areas which might not be adequately covered within current procedures; and
- if necessary, to inspect physical features or structures which may be relevant to the distribution of funds.

The Commission meeting with representatives of the Port Pirie Regional Council as part of its visiting program in March 2021.

FREQUENTLY ASKED QUESTIONS

How does the rate, which council applies, affect our grant?

Council's capacity to raise revenue is assessed using property valuations, which are its taxation base for setting rates. The Commission uses capital valuations regardless of whether the council uses site, annual assessed or capital valuations. The Commission compares each council's valuation per capita against the State average valuation per capita in the category areas of residential, commercial, industrial, rural and other. The Commission then assumes council makes the average rating effort in each category and applies the average rate in the dollar. The individual rates that councils set are not considered, consistent with the effort neutrality principle that all calculations are independent of council policy and practices.

The Commission undertook research in 2003-04 into the way it assessed councils' capacity to raise revenue. It was decided to incorporate the SEIFA Index of Economic Resources into the revenue assessment by modifying the valuation assessment by the index, weighted by the State weighted average.

What is the SEIFA Index and how does it work?

The SEIFA Index of economic resources reflects data relating to the income and expenditure of families, such as income and rent and home ownership; and is said to provide the best reflection of the disposable income of families. As a result the Commission believes that this is the best index to incorporate into the revenue assessments to reflect the capacity of the community to pay rates.

The Commission compares each council's valuation per capita, modified by the weighted SEIFA Index against the State average valuation per capita multiplied by the State average SEIFA index, in the category areas of residential and rural. The calculation then continues as above.

Does council's level of expenditure on a particular function affect our grant?

Only in its ability to influence the standard cost for the State. The use of council's (net) expenditure in the calculations is limited to determining a state average, or standard cost for each selected function. The standard costs for these functions are then applied to all councils in calculating their grants. What an individual council may actually spend on a function has very little bearing on the standard cost or its grant.

How can council influence the grant outcome?

The grants are independent of the policy or practices of council, and as a result council has no direct influence on the grant outcome. Councils can however, ensure that the Commission is kept informed of the circumstances of your council to ensure that the methodology meets the needs of both broader Local Government and the individual needs of councils.

We are an efficient Council: Are we disadvantaged because of that?

No! In fact, there is a sense in which the ratepayers of efficient councils benefit from the Commission's approach. Because a council's grant is assessed independent of policy decisions by council, a council that provides a cost effective service still receives grant funding which it can allocate to other areas according to local priorities.

How does the number of non-rateable properties affect the calculations?

Non rateable properties are excluded from the Commission's calculations. The calculations deal with relativities between councils, based on the theoretical revenue raising capacity of council's rateable properties.

How does the Commission recognise the non-resident use of our facilities?

Non-resident use of council services is very difficult for the Commission to measure in isolation of the provision of services to a councils existing residents.

Councils do not, in general terms, keep data that identifies non-resident use from either tourist visitors or residents of neighboring councils who use a councils services.

The Commission considers that the use of council services from non-residents is included in rate revenue and council expenditure included in councils audited financial statements across a range of services and therefore included in the Commission's methodology.

B-doubles are significantly contributing to the wear and tear on our roads. How does the Commission take into account traffic volume?

The Commission applies a cost relativity index to the road length calculations to determine council's individual road need. Currently the Commission takes into account soil, terrain, rainfall and material haulage.

Since 2003, the Commission has attempted to gather data from councils to reflect traffic volume; however councils have not been able to provide sufficient evidence to include this element in the calculations to date.

Is the formulae used for the grants calculations ever reviewed?

The Commission has an ongoing program of reviewing the methodology used in the assessment of councils' capacity to provide an average level of service to their communities.

The last major review of the methodology was undertaken in 2012-13. Smaller reviews are regularly undertaken to keep abreast of the changing environment of councils, including:

- reviewing all expenditure assessments and making changes to reflect recurrent expenditure in local government;
- the replacement of capital expenditure in the calculations with annual depreciation;
- reviewing the stormwater expenditure function;
- investigations into the effects of decreasing/increasing valuations within Local Government;
- reviewing the cost driver for the sport and recreation expenditure function;
- investigations into the impact of growth within Local Government;
- investigations into the reliability of libraries data; and
- investigations into expenditure need for airports and airstrips, boat ramps and marinas.

Do councils have input into the review process?

In previous reviews, the Commission formed Reference Groups which consist of council representatives, the Local Government Association and other interested bodies to assist the Commission. The Commission also undertakes extensive modelling of any recommended changes prior to introducing them into the grant process.

How should we keep the Commission informed of issues relevant to our council?

Each year the Commission requires councils to supply information in three data returns so it can be used for the grant calculations process.

These are known as the General Information Return, General Information Return (Roads) and Supplementary Return. This is not only a method of collecting data about councils, but it also provides the opportunity for councils to highlight any issues they wish to bring to the attention of the Commission.

The Returns are due annually by 30 November. Under legislation, councils are also required to provide a copy of their Annual Report by 31 December. The Commission is also happy to discuss any queries or issues with councils at any time.

How do the brought forward payments work?

Over recent years, the Federal Government has allocated an early grant payment prior to 1 July of the year in which the allocation is due.

The amount of grant has varied from approximately one quarter to (approximately) half of the total grant for the year. The amount of the brought forward payment is based on the coming years initial grant estimates and the allocation of the brought forward payment to councils is based on the current year's approved distribution of grants. Bring Forward payments include the general purpose grant and the identified local road grant.

It is important to note that brought forward payments, based on the initial estimates for the coming financial year, do not necessarily equate to exactly 50% of the coming year's grants. They are based on the approved recommendations from the previous year and the Commission's final recommendations for the coming year, which may include changes in grants due to changes in methodology or data or constraints placed on the pool by the Federal Government, will likely see the remainder of the coming year's funding not match the brought forward payment.

The remainder of the financial assistance grants are distributed as per the usual process of four quarterly instalments, and are paid in August and November and in February and May the following year.

KEY DATES

Mid August	First quarterly instalment of grants paid
October/November	National Forum of Local Government Grants Commissions and/or Executive Officers Workshop
Mid November	Second quarterly instalment of grants paid
30 November	General Information Returns, Supplementary Returns and Audited Financial Statements due
31 December	Annual Report due
Mid February	Third quarterly instalment of grants paid
Mid May	Fourth quarterly instalment of grants paid

South Australian Local Government Grants Commission

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